



Claire McCaskill

Missouri State Auditor

---

March 2005

# Forty-Fifth Judicial Circuit

## City of Troy, Missouri Municipal Division



Office Of  
Missouri State Auditor  
Claire McCaskill

March 2005

**During our audit of the Forty-fifth Judicial Circuit, City of Troy, Missouri, Municipal Division, we identified the following problems.**

---

Receipts of cash totaling at least \$50,950 were collected by the city of Troy Municipal Division from June 2002 to September 2004, but were not deposited in the municipal division bank account. The majority of the undeposited monies appeared to relate to bond payments.

On August 29, 2004, the day before our audit of the municipal division was scheduled to begin, a fire occurred in the basement of city hall. It has been determined that the fire, which destroyed some municipal division financial records, was deliberately set. Many municipal division records were severely damaged by the fire for the entire audit period. In addition, division personnel were unable to locate bond form records which provide information including bond form numbers, the date and amount of bonds received, and bond dispositions. Given the condition and unavailability of the various records, it is possible more monies may have been misappropriated than have been identified.

Significant internal control weaknesses and a lack of proper oversight or independent reviews over the municipal division functions have allowed the misappropriations to occur and go undetected. During the audit period, accounting duties were not adequately segregated and there was little independent review of the municipal division's records. Numerous instances were noted where receipt slips were not issued for some monies received and monies were not always deposited timely. While monthly bank reconciliations and listings of open items (liabilities) were prepared, reconciling items were not properly documented and the open items listings appeared incomplete. At September 30, 2004, liabilities exceeded the court bank account balance by nearly \$35,000.

Problems with the division's disbursement procedures resulted in amounts due to the city, state, and various vendors. Some restitution monies collected for non-sufficient fund check cases have not been disbursed and approximately \$3,324 is due to various vendors. The division owes the state approximately \$6,839 for various court fees that were not disbursed to the state for several months. Fines and costs were not disbursed to the city timely or at all for several months and approximately \$31,239 is due to the city.

**All reports are available on our website: [www.auditor.mo.gov](http://www.auditor.mo.gov)**

YELLOW SHEET

FORTY-FIFTH JUDICIAL CIRCUIT  
CITY OF TROY, MISSOURI  
MUNICIPAL DIVISION

TABLE OF CONTENTS

		<u>Page</u>
STATE AUDITOR'S REPORT .....		1-3
EXECUTIVE SUMMARY .....		4-5
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS .....		6-13
<u>Number</u>	<u>Description</u>	
1.	Misappropriated Funds .....	7
2.	Controls and Procedures .....	8
FOLLOW-UP ON PRIOR AUDIT FINDINGS.....		14-15
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....		16-18

STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

Dan Dildine, Presiding Judge  
Forty-Fifth Judicial Circuit  
and  
Malaine Hagemeier, Municipal Judge  
Troy, Missouri

We have audited certain operations of the city of Troy Municipal Division of the Forty-Fifth Judicial Circuit. The scope of this audit included, but was not necessarily limited to, the two years ended June 30, 2004. The objectives of this audit were to:

1. Review internal controls over significant financial functions.
2. Review compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations.
4. Investigate irregularities noted regarding cash receipts and deposits.
5. Determine to what extent funds may have been misappropriated.

Our methodology to accomplish these objectives included reviewing written policies, financial records, and other pertinent documents; interviewing various personnel of the municipal division, as well as certain external parties; and testing selected transactions.

In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed

and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the municipal division's management and was not subjected to the procedures applied in the audit of the division.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Troy Municipal Division of the Forty-Fifth Judicial Circuit.



Claire McCaskill  
State Auditor

December 21, 2004 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Regina Pruitt, CPA
In-Charge Auditor:	Stacy Griffin-Lowery
Audit Staff:	Kelly Davis, CPA

## EXECUTIVE SUMMARY

FORTY-FIFTH JUDICIAL CIRCUIT  
CITY OF TROY, MISSOURI  
MUNICIPAL DIVISION  
EXECUTIVE SUMMARY

Our audit identified receipts of cash totaling at least \$50,950 were collected by the city of Troy Municipal Division from June 2002 to September 2004, but were not deposited in a municipal division bank account. The majority of the undeposited monies appeared to relate to bond payments.

The city of Troy Municipal Division is responsible for assessing, collecting, and distributing monies in connection with municipal traffic and ordinance violation cases, and non-sufficient fund (NSF) check cases. The division maintains one bank account for the deposit of bond monies and fines, costs, and restitution collected for NSF checks. Fines and costs collected for traffic and ordinance violation cases are transmitted to the city for deposit into a city bank account. During the two fiscal years ended June 30, 2004, receipts related to traffic and ordinance violation cases totaled approximately \$324,000 and receipts related to NSF check cases totaled approximately \$238,000.

On August 29, 2004, the day before our audit of the municipal division was scheduled to begin, a fire occurred in the basement of the city hall. Personnel with the Office of the State Fire Marshal and the U.S. Department of Justice, Bureau of Alcohol, Tobacco, Firearms and Explosives have determined the fire, which destroyed some municipal division financial records, was intentionally set.

Many municipal division records were severely damaged by the fire for the entire audit period (bank statements, bank reconciliations, open items listings, deposit slips, and check registers) and for the period January 2004 through June 2004 (court dockets, bond forms, and bond one-write ledgers). In addition, division personnel were unable to locate bond form records which provide information including bond form numbers assigned to police officers, the date and amount of bonds received, and the bond disposition. Given the condition and unavailability of the various records, it is possible more monies may have been misappropriated than have been identified.

Lack of internal control and little or no independent review allowed these misappropriations to occur and not be detected. These misappropriations may have been detected if adequate oversight and reviews had been performed, and if internal controls as noted in the accompanying Management Advisory Report had been established. Information regarding the missing monies has been provided to the appropriate law enforcement authorities.

Carol Gibson was appointed as Court Clerk in November 1997 and was terminated on September 20, 2004. She was responsible for receipting, recording, depositing/transmitting, disbursing court monies, and performing month-end reconciliations. Amy Kinker served as Municipal Judge during the audit period and was replaced by Malaine Haggemeier on July 1, 2004.

MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

FORTY-FIFTH JUDICIAL CIRCUIT  
CITY OF TROY, MISSOURI  
MUNICIPAL DIVISION  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

<b>1.</b>	<b>Misappropriated Funds</b>
-----------	------------------------------

Cash receipts totaling at least \$50,950 were collected by the city of Troy Municipal Division from June 2002 thru September 2004, but were not deposited.

The problem appears to relate primarily to bond monies, although there were also some discrepancies noted with non-sufficient fund (NSF) check cases. The shortage includes both recorded and unrecorded receipts. Numerous cash monies recorded in the division's receipt records could not be traced to a subsequent bank deposit, and it appears these monies, totaling approximately \$16,231, were misappropriated. A review of bond forms, bond and NSF check receipt records, case information (manual files and computerized records), and bank records for the June 2002 through December 2003 and July 2004 through September 2004 time periods revealed an additional \$12,563 in cash receipts that were apparently neither receipted nor deposited. Although many of the records, particularly bond records, sustained severe fire damage for the January through June 2004 time period, we performed similar work and were able to determine approximately \$22,156 in cash receipts that appear to have been misappropriated. Due to the condition and disorganization of the various division records, it is possible additional monies may have been misappropriated.

A lack of internal control and no independent review or oversight, as discussed in the remainder of the Management Advisory Report (MAR), allowed these misappropriations to occur and not be detected.

**WE RECOMMEND** the city of Troy Municipal Division take the necessary action to recover the missing funds, and continue to work with law enforcement officials regarding any criminal prosecution.

**AUDITEE'S RESPONSE**

*The Municipal Judge provided the following response:*

*The city of Troy is cooperating with law enforcement regarding criminal prosecution for the misappropriated funds. Recovery of missing funds will be pursued through criminal prosecution in the form of restitution to the city of Troy.*

Significant internal control weaknesses and a lack of proper oversight or independent reviews over the municipal division functions have allowed the misappropriations noted in MAR finding number 1 above to go undetected.

- A. During the audit period, accounting duties were not adequately segregated and there was little independent review of the municipal division's records. All accounting duties, including receiving, recording, depositing/transmitting, disbursing court monies, and performing month-end reconciliations were performed by the former Court Clerk. While the City Treasurer did review some municipal division records related to traffic and ordinance violation monies transmitted to the city, there was no review or oversight related to bond and NSF check monies collected and deposited directly into the municipal division's bank account.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing monies from that of recording and disbursing monies. If a proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent comparison of receipt slips issued to amounts deposited and an independent review of bank statements and month-end reconciliations. Any unusual items or discrepancies should be investigated.

- B. Numerous instances were noted where the former Court Clerk did not issue receipt slips for some monies received. In addition, monies were not always deposited timely. Although deposits were generally made a few times each week, we noted several instances where a week or more separated deposits. During the time period we reviewed, deposits averaged from approximately \$1,500 to \$2,200, and typically included approximately 45 to 50 percent cash monies. It was also noted that checks and money orders are not restrictively endorsed until deposits are prepared.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, a prenumbered receipt slip should be issued for all monies received and the composition of monies received should be reconciled to the composition of monies deposited. Furthermore, receipts should be deposited intact daily or when accumulated receipts exceed \$100, and checks and money orders should be endorsed immediately upon receipt.

- C. Monthly bank reconciliations and listings of open items were prepared. However, due to fire damage to these records it was not possible to complete a thorough review of the reconciling items (ie; outstanding checks and deposits in transit

amounts) and determine whether liabilities were agreed to the reconciled bank balance. Using records and information available, we performed a comparison of the September 30, 2004 bank balance to liabilities and determined that identified liabilities exceeded the cash balance by nearly \$35,000.

In addition, from our review of case information (manual and computerized) for some cases from which monies appear to have been misappropriated, it appears the former Court Clerk receipted the payments, showed the payments in the applicable case records, and then made the corresponding disbursements (ie; applied the bonds, refunded bond monies, paid restitution to vendors) even though the monies received had not been deposited. This handling contributed to the bank account shortage.

We did note some additional concerns with these procedures and records.

1. Detailed outstanding check information is not retained with the bank reconciliation, checks were not always distributed promptly, and follow up on outstanding checks is not timely.

A total outstanding check amount was included on the bank reconciliation, but details regarding this amount (check numbers, dates, and amounts) were not included and division personnel could not locate any current outstanding check listings. We did locate a listing of several old outstanding checks, totaling approximately \$1,164, with dates ranging from 1995 to 1999. We also found some old checks in a desk drawer, which totaled approximately \$2,108, and had dates ranging from March 1998 to November 2002. It appears some of these checks may have been returned in the mail or issued to vendors that were no longer in business. There were also numerous checks located in a drawer which were written from late July through early September 2004, totaling approximately \$4,775, which appeared to have never been distributed.

Detailed information is necessary to monitor and review the propriety of the outstanding check amounts. Procedures should be adopted to routinely follow up on old outstanding checks. If, after sufficient efforts have been made to locate payees, some old checks remain outstanding, various statutory provisions provide for the disposition of unclaimed monies. Checks should be distributed promptly after preparation to ensure proper handling.

2. The former Court Clerk provided us with a June 2004 open items listing. However, a comparison of this listing to the listing we found attached to the June 2004 bank reconciliation showed that three entries had apparently been removed from the listing she provided. It is unclear whether these changes were intentional or in error. A review of the three cases indicated these amounts should have been on the June 2004 listing. We also noted

two instances in our testing where case balances were not properly included on the open items listing. The accuracy and completeness of either of the June 2004 open items totals is questionable given the unexplained differences.

Reconciliations of open items to the cash balance provide assurance that the records are in balance, that receipts and disbursements have been accurately handled and recorded, and are necessary to ensure accountability over open cases and to ensure monies held in trust by the municipal division are sufficient to meet liabilities.

- D. Procedures to account for bond forms were not adequate. It was the former Court Clerk's responsibility to assign bond forms and account for the numerical sequence of those forms. This was documented on reports which provided information including bond form numbers assigned and to whom, the date and amount of bonds received, and the bond disposition. These reports, as well as the bond one-write receipt ledgers, were both prepared by the former Court Clerk and there was no independent review by police department or other city personnel to account for the bond number sequences or ensure all monies had been properly recorded in the municipal division receipt records. Division personnel were unable to locate the bond form assignment reports for the audit period. Without independent comparisons there is less assurance that all bond forms and any related monies have been accounted for properly.
- E. Significant problems were noted with the division's periodic and month-end disbursement procedures, and amounts are due to the city, state, and various vendors.
1. The former Court Clerk did not properly disburse some restitution monies to vendors on NSF check cases. It appears there have been underpayments to various vendors totaling approximately \$3,324. A comparison of municipal division restitution disbursement reports to reports received by the vendors and/or checks written by the division for the time period May 2002 through August 2004 revealed numerous instances where vendors were underpaid by \$4,987. Of that amount, \$1,663 appeared to relate to a computer system problem in which closed cases were improperly included in the amount to be paid out to the vendor. The remaining \$3,324 had no explanation and it appears the restitution remains due to the vendors.
  2. The Police Officer Standards and Training (POST), Crime Victim's Compensation (CVC), and Computer Automation Fund (CAF) fees were not disbursed to the state for several months. A problem was noted for December 2002 and none of these fees were disbursed for June, July, August, or September 2004. As a result, approximately \$6,839 is due to the state for these various fees.

3. Disbursements to the city for NSF case fines and costs were frequently untimely and not always for the proper amount. Time lags between the month the fines or costs were received and the date they were distributed frequently exceeded one month, and on a few occasions disbursements related to several months' activity were distributed to the city on the same date. For example, the former Court Clerk disbursed January through June 2004 monies to the city in August 2004. We noted 11 months where fines or costs amounts were underpaid and 7 months (including July, August, and September 2004) for which the court has yet to disburse monies to the city. As a result, approximately \$30,804 is due to the city. There were also some errors in payments from the city to the municipal division for traffic case fees, resulting in approximately \$435 due to the city. As of September 2004, the municipal division owes the city a total of \$31,239. A copy of the municipal division ledger was provided to the city with each disbursement of fines and costs. Had a more thorough and careful review or comparison of this ledger to the actual check been performed, many of these errors and delays could have been detected.

Timely disbursements of monies collected on behalf of vendors, the state, or the city, and effective review and oversight procedures are necessary to provide adequate controls over account balances and increase the likelihood that discrepancies are detected in a timely manner.

**WE RECOMMEND** the city of Troy Municipal Division:

- A. Adequately segregate the duties of receiving and depositing monies from that of recording and disbursing monies. If a proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent comparison of receipt slips issued to amount deposited and an independent review of bank statements and month-end reconciliations. Any unusual items or discrepancies should be investigated promptly.
- B. Issue prenumbered receipt slips for all monies received and reconcile the composition of monies received to the composition of deposits. In addition, we recommend the municipal division ensure receipts are deposited daily or when accumulated receipts exceed \$100, and restrictively endorse all checks and money orders immediately upon receipt.
- C. Review the old identified outstanding checks and liabilities and determine their proper disposition. In addition, we recommend the municipal division:
  1. Ensure that detailed listings of reconciling items, such as outstanding checks and deposits in transit, are retained with the bank reconciliations. The division should reissue old outstanding checks to any payees who can be located. If the payees cannot be located, the monies should be disposed of through the applicable statutory provisions. In addition, procedures to

routinely follow up and reissue any old outstanding checks should be adopted. In addition, checks should be distributed promptly after preparation.

2. Prepare monthly listings of open items and reconcile liabilities to the cash balances. Any difference should be promptly investigated.
- D. Establish procedures to ensure that bond forms and the related monies are accounted for properly.
  - E. Disburse amounts due to the state, city, and vendors as appropriate, and develop procedures to ensure future disbursements of monies collected on behalf of the city, state, and/or vendors are timely and accurate.

### **AUDITEE'S RESPONSE**

*The Municipal Judge provided the following responses:*

- A. *The municipal division has one full-time employee who is designated as a Court Clerk. The police department has one full-time employee and one half-time employee who are each designated as Police Clerks. The Court Clerk and Police Clerks have responsibility for receiving money from defendants during regular business hours, and the Police Clerks receive payments from defendants during court while the Court Clerk is assisting the Municipal Judge. The Court Clerk will continue to have responsibility for recording, depositing, and disbursing monies received from defendants. However, the full-time Police Clerk will conduct a monthly comparison of receipts slips with amounts deposited and will review bank statements and month-end reconciliations and investigate any unusual items or discrepancies. This plan has been adopted and will be fully implemented by April 1, 2005. It should be noted that the discharge of the previous Court Clerk and the state of the records when she was discharged has resulted in a backlog of paperwork which has prevented the complete implementation of this recommendation at the present time.*
- B. *Pre-numbered receipt slips are currently being issued for all monies received and the composition of monies received is currently being reconciled with the composition of monies deposited. Receipts are being deposited daily. All checks and money orders are currently being endorsed immediately upon receipt. By April 1, 2005, the full-time Police Clerk will reconcile deposit slips with daily income reports generated by the Court Clerk. This reconciliation will take place on or before the 15th of each month to ensure that all money received for a prior month has been deposited.*
- C.1. *Each bank reconciliation will be retained, accompanied by the check numbers, dates, and amounts of any outstanding checks. All checks will be distributed promptly. Outstanding checks will be followed up on promptly with the assistance of the police department in attempting to locate payees on old outstanding checks. Any amounts for whom payees*

*cannot be located by July 1, 2005, will be forwarded to the State of Missouri as unclaimed property.*

2. *As part of reconciling the bank statements each month, open items will be reconciled to the cash balance.*
  
- D. *The Court Clerk now personally issues all bond forms in sequential, numerical order. Bond reports and ledgers will be reviewed by the full-time Police Clerk on a monthly basis to account for the sequence of all bond numbers and ensure all monies have been properly recorded and deposited. Because some bonds in the past were issued out of sequence, it is anticipated that the reports may not be fully sequential in nature until July 1, 2005. However, independent reviews by the full-time Police Clerk will be implemented by April 1, 2005.*
  
- E. *All money collected on behalf of vendors, the State of Missouri, or the city of Troy will be disbursed within 45 days of receipt. The full-time Police Clerk will review disbursements by the Court Clerk on or by the 15th of each month for the preceding month to ensure that such disbursements are timely and accurate.*

FOLLOW-UP ON PRIOR AUDIT FINDINGS

FORTY-FIFTH JUDICIAL CIRCUIT  
CITY OF TROY, MISSOURI  
MUNICIPAL DIVISION  
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the city of Troy Municipal Division on the applicable finding in the Management Advisory Report (MAR) of our prior audit report issued for the two years ended 1997 or 1998 on the municipal divisions of the Forty-Fifth Judicial Circuit.

1. City of Troy Municipal Division

- A. The municipal division improperly assessed court costs of \$10 per case, rather than the amount of court costs provided by law. In addition, Crime Victims Compensation (CVC) and Law Enforcement Training (LET) fees were not assessed on some applicable cases.
- B. Neither the police department nor the municipal division maintained complete records to account for traffic tickets assigned and issued and their ultimate disposition.

Recommendation:

The city of Troy Municipal Division:

- A. Assess court costs and fees in accordance with state law.
- B. Work with the police department to ensure ticket issuance logs provide necessary details.

Status:

A&B. Implemented.

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

FORTY-FIFTH JUDICIAL CIRCUIT  
CITY OF TROY, MISSOURI  
MUNICIPAL DIVISION  
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The city of Troy Municipal Division is one of eight municipal divisions within the Forty-Fifth Judicial Circuit, which consists of Lincoln and Pike Counties. The Honorable Dan Dildine serves as Presiding Judge.

The municipal division is governed by Chapter 479, RSMo 2000 and RSMo Supp. 2003, and by Supreme Court Rule No. 37. Supreme Court Rule No. 37.49 provides that each municipal division may establish a violation bureau (VB) in which fines and costs are collected at times other than during court and transmitted to the city treasury.

Operating Costs

The operating costs and court salaries of the municipal division are paid by the municipality.

Organization

The Court Clerk is responsible for recording transactions as well as handling collections and disbursements. Fines and court costs related to traffic and ordinance violations are transmitted to the City Clerk for deposit in the city treasury. The police department receives bond monies when the Court Clerk is not present. The municipal division maintains a bank account for bonds and non-sufficient fund check collections. Court is held twice each month. A VB has been established to receive payments of fines and court costs at times other than during court.

Personnel

Municipal Judge *	Amy Kinker
Court Clerk**	Carol Gibson

\* Malaine Hagemeyer, replaced Amy Kinker as Municipal Judge in July 2004.

\*\* Carol Gibson was terminated in September 2004. Kristen Cottle was hired as Court Clerk in November 2004.

Financial and Caseload Information

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Traffic/Municipal Ordinance	\$153,767	170,574
Insufficient Fund Checks	\$118,182	119,651
Number of cases filed:		
Traffic/Municipal Ordinance	2,118	2,085
Insufficient Fund Checks	588	834